

REPORT ON EXAMINATION
OF
SCOTTISH RE (U.S.), INC.
AS OF
DECEMBER 31, 2005

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2005 of the

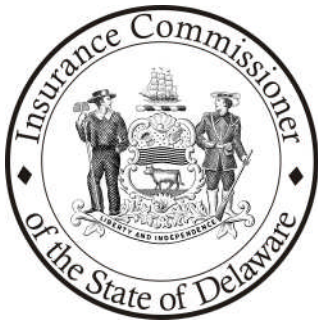
SCOTTISH RE (US), INC.

is a true and correct copy of the document filed with this Department.

ATTEST BY:

Antoinette Handy

DATE: 29 JUNE 2007



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 29TH DAY OF JUNE 2007.

Matthew Denn

Insurance Commissioner

REPORT ON EXAMINATION
OF THE
SCOTTISH RE (U.S.), INC
AS OF
December 31, 2005

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matt Denn", with a stylized flourish at the end.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 29TH Day of JUNE 2007.

TABLE OF CONTENTS

SCOPE OF EXAMINATION	2
HISTORY	3
CAPITALIZATION	4
MANAGEMENT AND CONTROL	4
HOLDING COMPANY SYSTEM	6
MANAGEMENT AND SERVICE AGREEMENTS	7
TERRITORY AND PLAN OF OPERATION	10
GROWTH OF COMPANY	11
NAIC FINANCIAL RATIOS	12
REINSURANCE	13
ACCOUNTS AND RECORDS	16
FINANCIAL STATEMENTS	17
NOTES TO THE FINANCIAL STATEMENTS	23
(Note 1) Common Stock	23
(Note 2) Funds held by or deposited with reinsured companies	23
(Note 3) Aggregate reserve for life contracts	24
(Note 4) Aggregate reserve for accident and health contracts	26
(Note 5) Contract claims: Life	27
(Note 6) Contract claims: Accident & Health	28
(Note 7) Other amounts payable on reinsurance assumed and ceded	30
(Note 8) Payable to parent, subsidiaries and affiliates	30
COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS	31
SUMMARY OF RECOMMENDATIONS	31
CONCLUSION	34
SUBSEQUENT EVENTS	35

April 30, 2007

Honorable Alford W. Gross
Chairman, Financial Condition (E)
Committee, NAIC
Virginia State Corporation Commission
Bureau of Insurance
1300 East Main Street
Richmond, VA 23219

Honorable Matthew Denn
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 06-017, dated May 5, 2006, an examination has been made of the affairs, financial condition and management of

SCOTTISH RE (U.S.), INC.

Hereinafter referred to as “Company or SRUS” incorporated under the laws of the State of Delaware as a stock company with its home office located at 1209 Orange Street, Wilmington, Delaware 19801. The examination was conducted at the main administrative office of the Company, located at 13840 Ballantyne Corporate Place, Suite 500, Charlotte, North Carolina 28277.

The report of such examination is submitted herewith.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 2001. This examination covered the period from January 1, 2002 through December 31, 2005, and consisted of a general survey of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

This report is presented on the exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. The text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible Company officials during the course of the examination.

The general procedures of the examination followed the rules established by the National Association of Insurance Commissioners' (NAIC) Committee on Financial Condition Examiners Handbook, and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. In accordance with the aforementioned Handbook, an information systems review was performed by the consulting firm of INS Services, Inc.

In addition to items hereinafter incorporated as part of the written report, the following were checked and made part of the workpapers of this examination:

Fidelity Bond and Other Insurance
Officers', Employees' and Agents' Welfare and Pension Plans

This examination did not qualify for zone participation as no direct premiums are written. The examination was made in conjunction with the examination of the Company's wholly-owned subsidiary, Scottish Re Life Corporation.

HISTORY

The Company was incorporated as the NRG American Life Reassurance Corporation on January 20, 1977 under the laws of the State of Delaware and commenced business on September 29, 1977. Its original Delaware Certificate of Authority was issued on January 20, 1977 and authorized the Company to transact the business of life insurance. In 1994 the Company was sold to NRG Acquisition Partners, L.P. and changed its name to Harbourton Reassurance, Inc. Scottish Holdings, Inc. purchased the Company on September 30, 1999. The Company amended its certificate of incorporation to change its name to Scottish Re (U.S.) Inc., effective February 2, 2000. On December 22, 2003, the Company's parent, Scottish Holdings, Inc., (SHI), purchased 95% of the outstanding capital stock of ERC Life Reinsurance Corporation (subsequently renamed Scottish Re Life Corporation (SRLC)) from Employers Reinsurance Corporation. On December 31, 2004, SHI contributed its interest in SRLC to the Company. Effective December 31, 2004, the Company acquired from ING America Insurance Holdings, Inc. (ING) 100% of the individual life reinsurance business written by Security Life of Denver Insurance Company and Security Life of Denver International Limited (subsidiaries of ING).

CAPITALIZATION

The Company has 50,000 authorized shares with 36,000 shares of stock outstanding at a par value of \$100 per share. There has been no change to the capital account during the period under review. The following contributions were made to the surplus account during the exam period:

<u>Year</u>	<u>Amount</u>
2002	\$44,653,738
2003	115,035,122
2004	210,435,838
2005	164,782,838
Total	\$534,907,536

Contributed surplus in the prior examination was \$71,151,762. Contributed surplus during the exam period consisted of \$469,471,094 of cash and 95% of the common stock of Scottish Re Life Corporation valued at \$65,435,838 on the date of contribution. On December 31, 2005, the Company had \$3,600,000 in capital and \$606,058,694 in contributed surplus.

MANAGEMENT AND CONTROL

The Company's bylaws were originally adopted January 20, 1977, amended October 8, 1982, amended during the period of this examination on December 8, 2003 and June 21, 2004. The bylaws state that the business and affairs shall be managed by a Board of Directors consisting of the number of directors permitted by statute with the number determined by

resolution of the Board of Directors or by the stockholders at the annual meeting. It is not necessary for the Directors to be stockholders.

The following constitute the Board of Directors as of December 31, 2005:

<u>Name</u>	<u>Principal Occupation</u>
Michael Cecil French	Chairman and Director of Scottish Re Group Limited
Scott E. Willkomm	President and Chief Executive Officer of Scottish Re Group Limited
Hazel Rollins O'Leary	Director of Scottish Re Group Limited
Oscar Ray Scofield	President and Chief Executive Officer of the Company
Seth W. Vance	President of Scottish Holdings, Inc.
Clifford James Wagner	EVP and Chief Actuary of Scottish Re Group Limited

The bylaws, as amended, state that the Officers of the Company shall include a President, a Secretary and a Treasurer. The Board of Directors may also choose senior vice presidents, vice presidents and one or more assistant secretaries and assistant treasurers. The same person may hold any number of offices.

The officers serving at December 31, 2005 were as follows:

Oscar Ray Scofield	President and Chief Executive Officer
Nathan V. Gemmiti	Senior Vice President, Chief Legal Counsel and Secretary
Paul Turner	Senior Vice President, Chief Risk Officer
Robert H. Miles	Senior Vice President and Chief Financial Officer
Donna T. Mosely	Senior Vice President and Treasurer
Richard Pollard	Senior Vice President and Appointed Actuary
A.P. Robinson, Jr.	Vice President, Controller and Assistant Treasurer
J.B. Fullen	Vice President, Finance and Assistant Treasurer
Amy E. Livezey	Assistant Secretary

It was noted during the review of corporate records for the examination period that there were no stockholder minutes as specified in the Company's bylaws. The Company is not in adherence with Article II of its bylaws requiring such meeting. The Company has not provided a complete listing of transactions with affiliates during the exam period. The NAIC Annual Statement instructions pursuant to Section 526 (a) of the Delaware Insurance Code (18 Del. C. § 526) require complete disclosure of such transactions. The board of directors' minutes did not include approval of investment transactions in accordance with Section 1304 of the Delaware Insurance Code (18 Del. C. § 1304). The Company did not provide all notifications to the Delaware Insurance Commissioner for changes in personnel among its directors and principal officers as specified in Section 4919 of the Delaware Insurance Code (18 Del. C. § 4919).

It is recommended that the Company comply with the provisions of Sections 526 (a), 1304 and 4919 of the Delaware Insurance Code regarding the NAIC annual statement instructions, approval of investment transactions and notification of changes to the Delaware Insurance Commissioner.

HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System. The following is an organizational listing that reflects the identities and interrelationships between the parent, the Delaware companies and subsidiaries as of December 31, 2005:

Scottish Re Group Limited (Cayman)
Scottish Annuity & Life Insurance Company (Cayman) Ltd. (Cayman)
Scottish Holdings (Barbados) Ltd. (Barbados)
Scottish Holdings, Inc. (US-Delaware)
Scottish Re (U.S.), Inc. (US-Delaware)
Scottish Re Life Corporation (US-Delaware)
Orkney Holdings, LLC (US-Delaware)
Orkney Re, Inc. (US-South Carolina)

Please refer to Part 1 of Schedule Y in the 2005 Annual Statement for the complete organizational chart that reflects a complete list of companies that comprise the Scottish Re Group Limited holding company.

Copies of the Insurance Holding Company System annual registration statements, Forms B, C and D, were reviewed during the period under examination. The forms filed with the Delaware Insurance Department indicated the Company was not in compliance with the requirements of Section 5004(a) (3) of the Delaware Insurance Code (18 Del. C. § 5004) with regards to filing all affiliated transactions with the Delaware Insurance Commissioner and the requirements of Section 5005(a) (2) d. of the Delaware Insurance Code (18 Del. C. § 5005) with regards to submitting affiliated agreements to the Delaware Insurance Commissioner for approval.

It is recommended that the Company comply with the applicable provisions of Sections 5004 and 5005 of the Delaware Insurance Code, regarding affiliated transactions and agreements required to be filed with the Delaware Insurance Commissioner.

Dividends

There were no dividends paid during the period covered by this examination.

MANAGEMENT AND SERVICE AGREEMENTS

Affiliated Agreements

The following affiliated agreements were identified as being in effect as of December 31, 2005:

(1) **SUPPORT SERVICES AGREEMENT** as of January 1, 2003, between Scottish Annuity & Life Insurance Company (Bermuda) Limited and the Company. The Company will provide professional and support services including information technology, administrative, underwriting, treaty administration, actuarial, financial and accounting support services.

(2) **SUPPORT SERVICES AGREEMENT** as of January 1, 2003, between The Scottish Annuity Company (Cayman) Ltd. and the Company. The Company will provide professional and support services including information technology, administrative, underwriting, treaty administration, actuarial, financial and accounting support services.

(3) **SUPPORT SERVICES AGREEMENT** as of January 1, 2003, between Scottish Re (Dublin) Limited and the Company. The Company will provide professional and support services including information technology, legal, administrative, underwriting, treaty administration, actuarial, financial and accounting support services.

(4) **SUPPORT SERVICES AGREEMENT** as of January 1, 2003, between Scottish Re Group Limited ("SRGL") and the Company. The Company will provide professional and support services including information technology, actuarial, financial and accounting support services.

(5) **SUPPORT SERVICES AGREEMENT** as of January 1, 2004, between ERC Life Reinsurance Corporation (renamed Scottish Re Life Corporation) ("SRLC") and the Company. The Company will provide professional and support services including information technology, legal, administrative, underwriting, treaty administration, actuarial, financial and accounting support services.

(6) **SUPPORT SERVICES AGREEMENT** as of April 1, 2001, between Scottish Annuity & Life International Insurance Company (Bermuda) Ltd. and the Company. The Company will provide professional and support services including information technology, legal, underwriting, and other services including but not limited to marketing, treaty administration and human resource services.

(7) **SUPPORT SERVICES AGREEMENT** as of January 1, 2001, between Scottish Annuity & Life Insurance Company (Cayman) Ltd., ("SALIC") and the Company. The Company will provide professional and support services including information technology, legal, administrative, underwriting, marketing, treaty administration, human resources and actuarial support services.

(8) **SUPPORT SERVICES AGREEMENT** as of January 1, 2005, between Scottish Re Holdings Limited and the Company. The Company will provide professional and support services as described in the agreement.

(9) **SUPPORT SERVICES AGREEMENT** as of January 1, 2005, between Scottish Re Life (Bermuda) Limited ("SRLB") and the Company. The Company will provide professional and support services including information technology, treaty and/or contract administration, actuarial, financial and accounting support services.

(10) **SUPPORT SERVICES AGREEMENT** as of January 1, 2005, between Scottish Holdings Inc. ("SHI") and the Company. The Company will provide professional and support services including information technology, treaty and/or contract administration, actuarial, financial and accounting support services.

(11) **SUPPORT SERVICES AGREEMENT** as of January 1, 2005, between the Company and SHI. SHI will provide professional and support services including information technology, legal, treaty administration, financial, accounting, marketing/corporate communication and human resources support services.

(12) **NET WORTH MAINTENANCE AGREEMENT** as of February 1, 2002, between SALIC and the Company. SALIC shall cause the Company to have at all times during the term of this agreement the greater of:

- (a) A minimum capital and surplus of \$20 million, or
- (b) The amount of capital and surplus necessary to prevent a Company Action Level Event from occurring under the risk-based ("RBC") capital laws of Delaware.

(13) **ASSET MANAGEMENT SERVICE FEE AGREEMENT** as of January 1, 2001, (January 1, 2004 per Form B) between Scottish Annuity & Life Holdings, Ltd., now known as Scottish Re Group Limited ("SRGL"), and the various subsidiaries of Scottish Holdings (including the Company). SRGL will provide Asset Management Services as specified in the agreement.

(14) **MANAGEMENT SERVICES AGREEMENT** as of January 1, 2001, between SRGL and the Company. Pursuant to this agreement, SRGL will provide management and corporate services including investment management, management of group structure, maintenance of financial strength rating, oversight of solvency, capital raising, bank negotiations and affiliations, management oversight and business planning.

(15) **TAX ALLOCATION AGREEMENT** as of February 11, 2005, among the Company, SRLB, SRLC, Orkney Re, Inc., and Orkney Holdings, LLC.

Other Agreements

The Company has an Investment Management Agreement as of June 28, 2002 through its relationship as an indirect subsidiary of Scottish Annuity & Life Insurance Company (Cayman) Ltd. with General Re – New England Asset Management, Inc. (NEAM). NEAM provides investment management services plus Schedule D accounting services plus manages the

Company's Schedule S trust agreement deposits for its ceding reinsurance program with various unauthorized reinsurers.

The Company also has custodial account agreements with Comerica Bank, Bank of America, Mellon Bank, Bank of New York and Wilmington Trust to manage invested assets under various statutory deposits and trust agreements.

TERRITORY AND PLAN OF OPERATION

Territory:

The Company was licensed in 17 states, and the District of Columbia, as of December 31, 2005 but does not write direct business. The Company is an accredited reinsurer in 31 jurisdictions.

Plan of Operation:

The Company assumes insurance from direct writing insurers under the following categories:

Traditional Solutions: The Company reinsures the mortality risk on life insurance policies written by primary insurers. This business is often referred to as traditional life reinsurance. The Company assumes this business predominately on an automatic basis with respect to newly written life insurance policies. This means that the Company automatically reinsures all policies written by a ceding company that meet the underwriting criteria specified in the treaty with the ceding company. In the North American market, the direct sales force targets the top 60 life insurance companies.

Financial Solutions: The Company offers reinsurance solutions that improve the financial position of their clients by increasing their capital availability and statutory surplus.

These solutions include contracts under which the Company assumes the investment and persistency risks of existing, as well as newly written, blocks of business. The products reinsured include annuities and annuity-type products, cash value life insurance and, to a lesser extent, disability products that are in a pay-out phase. This line of business includes acquired solutions products in which the Company provides its clients with exit strategies for discontinued lines, closed blocks, or lines not providing a good fit for a client's growth strategies. With the Company assuming full responsibility and management of these contracts, their clients can focus and concentrate their full efforts and resources on their core strategies.

GROWTH OF COMPANY

The following information was obtained from the Company's filed Annual Statements:

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus</u>	<u>Premiums, Annuity Considerations and Deposits</u>	<u>Net Income</u>
2005	\$2,766,063,610	\$229,839,465	\$636,375,169	\$(263,485,561)
2004	2,589,213,152	227,863,925	667,507,439	(25,573,268)
2003	1,070,172,550	51,503,776	107,815,431	(110,162,550)
2002	528,232,695	52,078,683	173,590,504	(61,398,230)
2001	307,779,144	35,761,185	30,180,249	(25,180,176)

The Company has experienced a significant decrease in net income because of the initial acquisition cost of new business, but the Company has received significant statutory support from its parent.

NAIC FINANCIAL RATIOS

The Company's 2005 NAIC Financial Ratios from the Insurance Regulatory Information System (IRIS Ratios) were reviewed and it was noted that the Company received the following six unusual values out of the twelve ratios reviewed:

- Gross Change in Capital and Surplus
- Net Income to Total Income
- Adequacy of Investment Income
- Change in Premium
- Change in Product Mix
- Change in Reserving Ratio

The unusual ratios are the result of a 116% increase (\$263.2 million) in gross capital and surplus. This was due to the increase of surplus notes issued to an affiliate, Scottish Re (Dublin) Limited by \$70 million, paid in surplus (contribution from parent) of \$164.8 million, and reinsurance increase to surplus of \$292.8 million in 2005. The Company retroceded several blocks of business, which generated a deferred gain that was credited directly to surplus. These transactions were with Orkney Re, Inc. (\$65.2 million), a downstream subsidiary owned by Orkney Holdings, LLC, Orkney Re II plc (\$96.8 million), an orphaned captive insurance company formed under the laws of Ireland, and Scottish Re (Dublin) Limited (\$74.3 million). These increases to surplus were partially offset by the Company's net loss of \$263.5 million in 2005 and \$3.4 million increase in the Asset Valuation Reserve. Nonrecurring transactions impacting the 2005 income included: \$30.0 million of transaction expenses incurred, \$5.0 million of interest recorded on a \$70 million surplus note issued by the Company in 2005, and \$8.0 million (net of retro) of initial ceding commission on new accepted transactions. The majority of the remaining difference is due to higher statutory losses in the 'Traditional

Solutions' line of business. The overall increasing retrocessions relate primarily to older business while retention of new business growth produces greater losses.

The adequacy of investment income is low although book yield increased to 5.1% in 2005. Premium and annuity considerations increased by 149% in 2005. The Company's product mix reflected a significant change in 2005. Premiums for ordinary life insurance decreased by 37.6% while premiums for individual annuities increased by 32.1%. There was an unusual value for the reserving ratio for ordinary life insurance reserves due to a \$219,594,640 decrease in those reserves.

REINSURANCE

The Company operates as a professional reinsurer as no direct business was written during the period covered by this examination.

Assumed

The Company reinsures mortality risk on a variety of life insurance products written by primary direct writers. The Company has excess retention pools to retrocede any risk over \$500,000 on a per life basis for its traditional Life line of business on policies issued in 2004 and prior and in excess of \$1,000,000 on policies with 2005 issue dates.

The Company offers three categories of life and annuity reinsurance products: Traditional Solutions (TS), Financial Solutions (FS), and Acquired Solutions (AS). TS business has been securitized by two entities, Orkney Re, Inc. and Orkney Re II plc. Orkney Re, Inc. assumed by quota-share agreement 100% of the Company's pre-2004 TS business liabilities on specifically identified assumed treaties.

The TS business reinsures the mortality risk on life insurance policies written by primary insurers. This business is often referred to as traditional life reinsurance. Traditional Solutions business is predominantly on an automatic basis with respect to newly written life insurance policies. The Company automatically reinsures all policies written by a ceding company that meet the underwriting criteria specified in the treaty.

The FS business offers reinsurance solutions to improve the financial position of the Company's clients by increasing their capital availability and statutory surplus. These solutions include contracts under which the Company assumes the investment and persistency risks of existing, as well as newly written blocks of business. The products reinsured include annuities and annuity-type products, cash value life insurance and, to a lesser extent, disability products that are in a pay-out phase.

The AS business provides clients with exit strategies for discontinued lines, closed blocks or lines not providing a good fit for a company's growth strategies. With the Company assuming full responsibility and management of these contracts, clients can focus and concentrate their full efforts and resources on core strategies.

Approximately 97% of the Company's business is self-administered (SA) by the ceding company/client, with the remaining 3% being administered by the Company (referred to as individual cession business (ICB) administration). ICB relates only to the Company's 95% owned subsidiary, Scottish Re Life Corporation block of business.

The assumed business of \$1,646,299,614 is comprised of \$1,638,132,789 life and \$8,166,824 accident and health. No amounts were assumed from affiliates. The largest amount of premium was assumed from the following insurers (71.1% of total assumed):

Fidelity & Guaranty Life Insurance Company	\$607,835,971
Security Life of Denver Insurance Company	302,973,925
Jefferson National Life Insurance Company	187,039,021
Allstate Life Insurance Company	38,771,330
Nationwide Life & Annuity Insurance Company	33,084,021

Ceded

The ceded premiums of \$1,009,924,445 are in life and annuity contracts. The business is ceded 97.3% to affiliated reinsurers. The largest amounts of premiums were ceded to affiliates listed below:

Scottish Re (Dublin) Limited	\$782,090,396
Orkney Re, Inc.	103,416,662
Orkney Re II plc	96,931,681
Scottish Re Limited (formerly known as Worldwide Reassurance Company, Ltd.)	58,795

During review of the Company's reinsurance treaty agreements and treaty accounting procedures, we noted numerous discrepancies in the treaty information and reinsurance accounting information that did not always agree with the information the Company presented in Schedule S of the 2005 Annual Statement.

It is recommended that the Company provide accurate data in the Annual Statement to comply with 18 Del. C. § 320 (c) and that accounting transactions be supported by reinsurance treaties. If funds are withheld, the treaty should include provisions for funds withheld to comply with SSAP No. 61 Paragraphs 21-24 and 39-40.

ACCOUNTS AND RECORDS

The accounts and records reviewed included an evaluation of the Company's operational and organizational controls. The areas evaluated included computer systems, accounting systems, organizational structure, and the processing structure. In general, it has been determined that the Company has sufficient level of controls in place for all of the above areas. Due to personnel turnover during the exam period, accounts have not received timely reconciliation. The Company also established a minimum dollar value in determining which accounts were reconciled during the exam period.

It is recommended that the Company implement appropriate procedures to assure the amounts reconciled to the Balance Sheet reconciliation are cleared in a timely manner.

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2005.

Assets
Liabilities, Surplus and Other Funds
Summary of Operations
Capital and Surplus Account
Examination and Surplus Changes

It should be noted that the various schedules and exhibits might not add to the totals shown due to rounding. With the exception of the items reviewed by the consulting actuary, INS Consultants, Inc., write-ups on the individual accounts in the Notes to the Financial Statements section of this report are presented on the “exception basis.” As such, only comments relative to adverse findings, material financial changes, or other significant regulatory concerns are noted. The financial statements as presented reflect the statutory financial statements as determined by this examination as of December 31, 2005.

Assets
December 31, 2005

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>	<u>Note</u>
Bonds	\$1,854,533,431	\$ -	\$1,854,533,431	
Preferred stocks	84,514,194	-	84,514,194	
Common stocks	76,446,927	7,793,606	68,653,321	1
Cash and short-term investments	226,555,365	-	226,555,365	
Contract loans	212,601	-	212,601	
Other invested assets	25,634,412	-	25,634,412	
Receivables for securities	267,878	-	267,878	
Investment income due and accrued	21,043,912	-	21,043,912	
Uncollected premiums and agents' balances in course of collection	159,585,967		159,585,967	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,285,757	-	2,285,757	
Amounts recoverable from reinsurers	24,460,978	-	24,460,978	
Funds held by or deposited with reinsured companies	92,527,316	-	92,527,316	2
Other amounts receivable under reinsurance contracts	138,675,519	-	138,675,519	
Net deferred tax asset	70,399,732	55,371,039	15,028,693	
EDP equipment and software	7,546,402	7,546,402	-	
Furniture and equipment	1,755,983	1,755,983	-	
Receivable from parent, subsidiaries and affiliates	47,526,142	-	47,526,142	
Leasehold improvements	5,261,892	5,261,892	-	
Prepaid assets	1,730,069	1,730,069	-	
Other assets non-admitted	4,115,309	4,115,309	-	
Totals	\$2,845,079,786	\$83,574,300	\$2,761,505,486	

The accompanying Notes are an integral part of the Financial Statements and Exhibits.

Liabilities, Surplus and Other Funds
December 31, 2005

		<u>Note</u>
Aggregate reserve for life contracts	\$1,712,334,890	3
Aggregate reserve for accident and health contracts	34,048,241	4
Liability for deposit-type contracts	76,984	
Contract claims: life	142,174,116	5
Contract claims: accident and health	2,501,526	6
Premiums and annuity considerations for life and accident and health contracts received in advance	38,072	
Surrender values on canceled contracts	9,820,795	
Provision for experience rating refunds	97,263	
Other amounts payable on reinsurance assumed and ceded	258,154,885	7
Interest maintenance reserve	21,236,574	
Commissions and expense allowances payable on reinsurance assumed	42,991,252	
General expenses due or accrued	13,240,514	
Taxes, licenses and fees due or accrued	1,718,641	
Remittances and items not allocated	64,932,011	
Asset valuation reserve	6,556,315	
Reinsurance in unauthorized companies	1,997,248	
Payable to parent, subsidiaries and affiliates	194,168,602	8
Funds held under coinsurance	18,743,497	
Payable for securities	8,466,578	
Accounts payable non-affiliate	<u>27,621</u>	
 Total Liabilities	 \$2,533,325,625	
 Common capital stock	 3,600,000	
Deferred gain on reinsurance	292,834,744	
Surplus notes	100,000,000	
Gross paid in and contribute surplus	606,058,694	
Unassigned funds (surplus)	<u>(774,313,577)</u>	
 Total Capital and Surplus	 <u>\$228,179,861</u>	
 Total Liabilities, Surplus and Other Funds	 <u>\$2,761,505,486</u>	

The accompanying Notes are an integral part of the Financial Statements and Exhibits.

Summary of Operations
December 31, 2005

Income:		<u>Note</u>
Premiums earned	\$ 636,375,169	
Net investment income earned	78,788,747	
Amortization of interest maintenance reserve	2,917,049	
Commissions and expense allowances on reinsurance ceded	(180,014,828)	
Reserve adjustments on reinsurance ceded	537,323,244	
Modco reserve adjustment	(688,339,045)	
Fee income	1,676,004	
Net interest credited on funds withheld	35,402,174	
Experience refunds	<u>11,601,769</u>	
Total income		<u>\$ 435,730,283</u>
Expenses:		
Death benefits	299,349,453	
Annuity benefits	12,095,309	
Disability benefits & benefits under accident & health contracts	3,454,207	
Surrender benefits & withdrawals for life contracts	73,236,795	
	(46,990,654)	
Increase in aggregate reserves for life & accident & health contracts		
Commissions & expense allowances on reinsurance assumed	228,538,526	
General insurance expenses	126,594,696	
Insurance taxes, licenses and fees	2,182,652	
Increase in loading on deferred & uncollected premiums	(8,950)	
Brokerage fees	<u>258,493</u>	
Total expenses		<u>698,710,527</u>
Net income before federal income taxes incurred		(262,980,244)
Federal income taxes incurred	(1,006,478)	
Net realized capital gains	501,161	
Net income		<u>\$ (263,485,561)</u>

The accompanying Notes are an integral part of the Financial Statements and Exhibits.

Capital and Surplus Account
December 31, 2004 to December 31, 2005

Note

Surplus as regards policyholders, December 31, 2004 \$227,863,925

Net Income (263,485,561)

Additions:

Change in nonadmitted assets	3,942,781
Change in surplus notes	70,000,000
Paid in surplus	164,782,234
Change in surplus as a result of reinsurance	292,834,744
Prior year correction of an error in surplus	<u>136,973</u>

Total additions 531,696,732

Deductions:

Change in net unrealized capital gains (losses)	(261,965,177)
Change in net deferred income tax	(210,680)
Change in liability for reinsurance in unauthorized companies	(632,111)
Change in asset valuation reserve	(3,427,663)
Change in surplus as a result of exam adjustments	(1,659,604)

1, 2, 7, 8

Total deductions (267,895,235)

Net change in surplus as regards policyholders for the year 315,936

Surplus as regards policyholders, December 31, 2005 \$228,179,861

The accompanying Notes are an integral part of the Financial Statements and Exhibits.

Examination and Surplus Changes

<u>Assets</u>	<u>Per Examination</u>	<u>Per Company</u>	<u>Surplus Increase (Decrease)</u>	<u>Note</u>
Common stock	\$ 68,653,321	\$ 76,446,927	\$ (7,793,606)	1
Funds held by or deposited with reinsured companies	92,527,316	89,291,834	3,235,482	2
<u>Liabilities, Surplus and Other Funds</u>				
Other amounts payable on reinsurance assumed and ceded	258,154,885	255,324,238	(2,830,647)	7
Payable to parent, subsidiaries and affiliates	194,168,602	199,897,769	5,729,167	8
Net Change in Surplus per Examination			(1,659,604)	
Surplus per Company			229,839,465	
Surplus per Examination			<u>\$ 228,179,861</u>	

The accompanying Notes are an integral part of the Financial Statements and Exhibits.

NOTES TO THE FINANCIAL STATEMENTS

(Note 1) Common Stock.....\$68,653,321

This asset is \$7,793,606 less than the Company reflected in its 2005 Annual Statement. The change is the result of the Delaware examination of Scottish Re Life Corporation. The reduction in the admitted value represents 95% of the examinations adjustments made per the December 31, 2005 examination report.

(Note 2) Funds held by or deposited with reinsured companies.....\$92,527,316

This asset is \$3,235,482 more than the Company reflected in its 2005 Annual Statement. The difference is due to the following adjustments:

\$3,547,876	Increase amount to equal reserve based on confirmations
(287,451)	Decrease for amount in excess of reserve
<u>(24,943)</u>	Decrease for amount written off first quarter of 2006
.	
<u>\$3,235,482</u>	Net Adjustment

It is recommended the Company not admit funds withheld in excess of reserves pursuant to SSAP No. 87 Paragraph 3. It is recommended the Company report accurate data in the annual statement to comply with NAIC Annual Statement instructions and 18 Del. C. § 320 (d).

(Note 3) Aggregate reserve for life contracts.....\$1,712,334,890

This liability is reported on Page 3, Line 1 and in Exhibit 5 of the 2005 Annual Statement. The reserve breakdown in Exhibit 5 by type of benefit is as follows (difference due to rounding):

Life Insurance	\$ 2,766,831,160
Annuities	1,177,842,085
Accidental Death Benefits	3,594,452
Disability – Active Lives	5,506,179
Disability – Disabled Lives	3,252,110
Miscellaneous Reserves	<u>467,354,460</u>
Total (Gross)	\$ 4,424,380,446
Reinsurance retroceded	<u>2,712,045,558</u>
Total (Net)	\$ 1,712,334,888

As part of the valuation certificate process, SRUS provided supporting work papers and reserve certification sheets from the ceding company in support of most of these reserves. INS Consultants, Inc. (INS), consulting actuarial firm traced the reserves from the supporting work papers and the reserve certification sheets to Exhibit 5 of the December 31, 2005 Annual Statement. No discrepancies were noted.

All of the Exhibit 5 reserves are calculated by the ceding companies. Sampling techniques were not used as a part of this examination. For this examination, reliance was placed on the certification of the ceding companies for the adequacy of the reserves. INS recommends that SRUS obtain reserve certification sheets from all ceding companies.

INS reviewed nine reinsurance assumed treaties which covered 70% of the Exhibit S reserves. INS also reviewed six reinsurance retroceded treaties which covered 90% of the

Exhibit S retroceded reserves. INS' review indicated that the reinsurance agreements transfer risks as required by the Delaware Insurance Code 1002.

INS reconciled the Exhibit 5 gross reserve total of \$4,424,380,446 to the Schedule S, Part 1, Section 1 total of \$4,424,380,066 (difference is immaterial) in the December 31, 2005 Annual Statement. INS also reconciled the Exhibit 5 retroceded reserve total of \$2,712,045,558 to the Schedule S, Part 3, Section 1 total of \$2,712,045,559 (difference due to rounding) in the December 31, 2005 Annual Statement. No discrepancies were noted. SRUS provided work papers supporting the retroceded reserves. INS reviewed these work papers and reconciled them to the ceded reserve total.

A trend analysis of the reserves indicated a reasonable pattern over the examination period.

The primary risks associated with Exhibit 5 reserves are adverse mortality, asset default, interest rate volatility and mismatching of asset and liability cash flows. These risks were further reviewed by evaluating the 2005 Actuarial Opinion Memorandum (AOM). Since all the Exhibit 5 reserves are calculated by the ceding companies, INS placed a heavy emphasis on the AOM review. Based on our analysis of the 2005 AOM, INS concluded that additional actuarial reserves were not required as of December 31, 2005.

Based on the previous discussion and analysis, INS concluded that the aggregate reserve for life policies and contracts as reported by SRUS on Page 3, Line 1 and in Exhibit 5 of the December 31, 2005 Annual Statement appears fairly stated. It has been accepted for the purpose of this report.

(Note 4) Aggregate reserve for accident and health contracts.....\$34,048,241

The unearned premium reserve (\$10,771,239) and the claim reserves (\$23,277,002) are assumed from ceding companies. All of this business is ceded to SRUS and reserves are calculated by the ceding companies. Sampling techniques were not used as a part of this examination. For this examination, reliance was placed on the certification of the ceding companies for the adequacy of the reserves. SRUS obtained reserve certification sheets from five of the nine ceding companies.

INS recommends that SRUS obtain reserve certification sheets from all ceding companies.

During the examination, INS reviewed the supporting work papers and found them to be in order. INS reconciled the supporting work papers to Exhibit 6 of the December 31, 2005 Annual Statement. No discrepancies were noted

INS reconciled the unearned premium reserve to the appropriate section of Schedule S. INS was unable to locate the claim reserve in the appropriate section of Schedule S.

INS recommends that SRUS report this reserve in the appropriate section of Schedule S.

Based on the previous discussion and analysis, INS concluded that the aggregate reserve for accident and health contracts as reported by SRUS on Page 3, Line 2 and in Exhibit 6 of the December 31, 2005 Annual Statement is reasonable after adjusting for interest on the underlying long term reserves.

(Note 5) Contract claims: Life.....\$142,174,116

This liability is reported on Page 3, Line 4.1 and in Exhibit 8 of the 2005 Annual Statement.

The liability break down is as follows:

Claims in Course of Settlement assumed	\$ 159,638,206
Claims in Course of Settlement retroceded	<u>89,237,956</u>
Total (Net)	\$ 70,400,250
IBNR assumed	\$ 94,301,282
IBNR retroceded	<u>22,527,416</u>
Total (Net)	\$ 71,773,866
Grand Total (Net)	\$ 142,174,116

During the examination, the examiners reviewed the claims in course of settlement (ICOS) liability and found it reasonable. INS reviewed the supporting work papers for the IBNR and found them to be in order. INS reconciled the supporting work papers with the December 31, 2005 Annual Statement. No discrepancies were noted. INS also performed a trend analysis over the examination period and found the trend was reasonable.

SRUS established the IBNR liability based on an average expected annual claim per \$1,000 of face amount inforce and an assumed lag period based on ceding company experience. INS reviewed the methodology used by SRUS to calculate the IBNR and has determined that it is reasonable. On a gross basis the IBNR liability as of December 31, 2005 was \$94.3 million. SRUS provided a list of claims that were incurred before January 1, 2006 and paid in 2006. These claims totaled \$89.3 million. Therefore, the IBNR appears sufficient by \$5 million.

Based on the above discussion and analysis, INS concluded that the contract claims: life liability as reported by SRUS on Page 3, Line 4.1 and in Exhibit 8, Part 1 of the December 31, 2005 Annual Statement appears fairly stated. It has been accepted for the purpose of this report.

(Note 6) Contract claims: Accident & Health.....\$2,501,526

This liability is reported on Page 3, Line 4.2 and in Exhibit 8 of the 2005 Annual Statement. The liability break down is as follows:

ICOS assumed	\$ 2,093,991
IBNR assumed	<u>407,535</u>
Total	<u>\$ 2,501,526</u>

During the examination, the examiners reviewed the ICOS liability and found it reasonable. Based on the examiner's review, the ICOS liability was accepted as stated. INS reviewed the supporting work papers for the IBNR and found them to be in order. INS reconciled the supporting work papers with the December 31, 2005 Annual Statement. No discrepancies were noted. INS performed a trend analysis over the examination period and found the trend was reasonable. Based on materiality no further examination work was deemed necessary.

Based on the above discussion and analysis, INS concluded that contract claims: accident and health liability as reported by SRUS on Page 3, Line 4.2 and in Exhibit 8, Part 1 of the

December 31, 2005 Annual Statement is fairly stated. It has been accepted for the purpose of this report.

Overview

As part of the examination of the Company, INS Consultants, Inc (INS) performed a review of the asset adequacy analysis within the AOMs for calendar years 2004 and 2005. This appendix summarizes that review.

INS Findings and Conclusion

Based on the asset adequacy testing (AAT) performed as part of the 2005 AOM, the Company's appointed actuary concluded that additional actuarial reserves were not required as of December 31, 2005. Based on our review of the 2005 AOM, INS concluded that additional actuarial reserves were not required. However,

INS recommends that future AOMs include a discussion of the risks associated with all business segments, include a determination of the amount of additional actuarial reserves required in order to eliminate all negative book value surplus results and include a more thorough presentation of the procedures and results for methods other than CFT analysis.

INS also suggests that future AOMs include:

- A tabular comparison of liabilities at the AAT date and year-end and an assertion that there has not been a material change in the risk characteristics of the liabilities between the two dates.

- A discussion of the quality and nature of assets supporting all actuarial liabilities – not just those subjected to cash flow testing analysis.
- Interim projected surplus results for all scenarios tested (including sensitivity tests).
- A discussion of specific asset adequacy analysis such that the aggregate of reserves or actuarial liabilities excluded from analysis does not exceed 5% of statutory surplus.

(Note 7) Other amounts payable on reinsurance assumed and ceded.....\$258,154,885

This liability is \$2,830,647 more than the Company reflected in its 2005 Annual Statement. Part of the adjustment to the balance was a result of a GAAP to Statutory adjustment made erroneously at year end 2005. The entry was debited to an account entitled Retrocession Payables and credited to general insurance expenses. In the first quarter of 2006, the entry was reversed through the same line items. The mistake was found too late for correction in the 2005 Annual Statement. The other difference resulted in a settlement amount where reinsurance premiums settled exceeded the reinsurance premium accrual due an affiliated reinsurer. The settlement was initially booked to the cash account on the Company's books, as that was the account from which cash was supposed to be moved. The amount was never settled and has now been re-classed into an intercompany account to await settlement.

(Note 8) Payable to parent, subsidiaries and affiliates.....\$194,168,602

This liability is \$5,729,167 less than the Company reflected in its 2005 Annual Statement. The examination decrease represents accrued interest on surplus notes to an affiliate included in the liability at December 31, 2005. Interest cannot be recorded as a liability nor an expense until

approval for payment of such interest has been granted by the Delaware Insurance Commissioner. Interest incurred but not approved for payment should be disclosed in the Notes to Financial Statements as stipulated by SSAP No. 41 Paragraph 12.

It is recommended the Company adhere to instructions contained in SSAP No. 41 regarding disclosure of interest on surplus notes.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The Company's compliance with prior examination recommendations was reviewed for each account in the current examination for each recommendation in the prior examination report. All prior examination recommendations were either directly or indirectly addressed in the current examination. We did not discover any prior recommendation which required a repeat recommendation to be included in this report.

It should be noted that there were five recommendations made in the prior examination report. It appears the Company has complied with all recommendations.

SUMMARY OF RECOMMENDATIONS

Management and Control

It is recommended that the Company comply with the provisions of Sections 526 (a), 1304 and 4919 of the Delaware Insurance Code regarding the NAIC annual statement instructions,

approval of investment transactions and notification of changes to the Delaware Insurance Commissioner. (Page 6)

Holding Company System

It is recommended that the Company comply with the applicable provisions of Sections 5004 and 5005 of the Delaware Insurance Code, regarding affiliated transactions and agreements required to be filed with the Delaware Insurance Commissioner. (Page 7)

Reinsurance

It is recommended that the Company provide accurate data in the Annual Statement to comply with 18 *Del. C.* § 320 (c) and that accounting transactions be supported by reinsurance treaties. If funds are withheld, the treaty should include provisions for funds withheld to comply with SSAP No. 61 Paragraphs 21-24 and 39-40. (Page 15)

Accounts and Records

It is recommended that the Company implement appropriate procedures to assure the amounts reconciled to the Balance Sheet reconciliation are cleared in a timely manner. (Page 16)

Uncollected premiums and agents balances in course of collection

It is recommended the Company accurately calculate its accrual for uncollected and deferred premiums rather than rely on the prior quarter collections from the ceding company. (Page 24)

Funds held by or deposited with reinsured companies

It is recommended the Company not admit funds withheld in excess of reserves pursuant to SSAP No. 87 Paragraph 3. It is recommended the Company report accurate data in the annual statement to comply with NAIC Annual Statement instructions and 18 Del. C. § 320 (d). (Page 23)

Aggregate reserve for accident and health contracts

It is recommended that the Company obtain reserve certification sheets from all ceding companies. It is recommended that SRUS report this reserve in the appropriate section of Schedule S. (Page 26)

INS Findings and Conclusion

INS recommends that future AOMs include a discussion of the risks associated with all business segments, include a determination of the amount of additional actuarial reserves required in order to eliminate all negative book value surplus results and include a more thorough presentation of the procedures and results for methods other than CFT analysis. (Page 29)

Payable to parent, subsidiaries and affiliates

It is recommended the Company adhere to instructions contained in SSAP No. 41 regarding disclosure of interest on surplus notes. (Page 31)

CONCLUSION

The following schedule reflects the results of this examination and the results of the prior examination with changes between the examination periods:

<u>Description</u>	<u>December 31, 2001</u>	<u>December 31, 2005</u>	<u>Increase (Decrease)</u>
Assets	\$306,298,023	\$2,761,505,486	\$2,455,207,463
Liabilities	\$273,146,104	\$2,533,325,625	\$2,260,179,521
Capital and Surplus	\$ 33,151,916	\$ 228,179,861	\$ 195,027,945

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. is acknowledged.

Respectfully submitted,



Steven C. Gregory, CFE, FLMI, AIE
Examiner In-Charge
State of Delaware

SUBSEQUENT EVENTS

The Company received capital contributions of \$153,453,850 from its parent during 2006.

The Company entered into two reinsurance transactions during 2006. The first transaction effective July 1, 2006, ceded yearly renewable term TS business. The second transaction effective October 1, 2006, ceded additional TS business.

The Company had its ratings downgraded by AM Best Company during 2006. The Company's ultimate parent Scottish Re Group Limited successfully completed in May 2007 a securities purchase agreement entered into on November 26, 2006 with investment partners. As a result, the Company may experience favorable ratings actions in the future.